

**Savings Board of Directors Board Meeting
August 10, 2016
MINUTES**

Board Present:

Chair Young Boozer
Mr. Taylor Nichols for Lt. Governor Kay Ivey
Dr. Greg Fitch
Ms. Sara Calhoun for Dr. Mark Heinrich
Mr. Jack Knight
Mr. Ronald Stokes by phone
Mr. Dennis Beavers
Dr. John Stewart
Mr. Daniel Hughes
Mr. Edward Reifenberg

Board Absent:

Mr. Chess Bedsole

Others Present:

Ms. Daria Story, Assistant Treasurer
Ms. Glenda Allred, Deputy Treasurer
Ms. Anita Kelley, Program Director
Mr. Jay Steinacher, Union Bank & Trust
Ms. Cari Kaup, Union Bank and Trust
Ms. Madison Jones, Union Bank & Trust
Ms. Annoesjka West, Callan
Mr. Rob Noe, Wilshire Associates by phone
Mr. John Nagle, Wilshire Associates by phone

Pursuant to written and public notice, the meeting of the Savings Board of Directors was held in the RSA Union Conference Room in Montgomery, AL on August 10, 2016.

The meeting was called to order by Chair Young Boozer at 1:00 p.m.

Roll was taken with a quorum present.

Chair Boozer introduced new board member Mr. Edward Reifenberg.

Chair Boozer presented the minutes of the May 11, 2016 board meeting. A motion for approval was made by Ms. Calhoun, seconded by Mr. Hughes, with unanimous approval.

Chair Boozer called on Anita Kelley to give the program report. Ms. Kelley provided a spreadsheet on the administrative fund with a listing of the budget, expenses and unexpended balances. She also provided a Statement of Cash Flows for the scholarship program and stated that the balance in that account is \$10,720,154 as of 06/30/2016. The report was received as informational.

Chair Boozer called on Glenda Allred to provide the scholarship report. Ms. Allred presented a recap of the 2016-17 scholarship award period noting the number of applications submitted and completed increased from the prior two years. She also discussed changes regarding FAFSA and the application timeline for the upcoming year. Ms. Allred stated that using the calculation the Board approved last year, the scholarship payout for 2017 would be \$1,067,172. A motion to approve the payout amount presented was made by Mr. Hughes, seconded by Mr. Beavers, with unanimous approval.

Chair Boozer called on Jay Steinacher with Union Bank and Trust for the quarterly program report. Mr. Steinacher stated that there were 80,971 active accounts with total assets in the plan of \$1.3 billion. This represents a 3.2% increase year over year. He stated that the number of Alabama account holders is 42,032 with \$629.3 million in plan assets. This is a 12.3% increase year over year. Mr. Steinacher said that total contributions YTD were \$73.6 million and total rollover contributions YTD were \$14.2 million. He also discussed asset allocation, age based portfolios, average age of account owner and beneficiary as well as average account size. Mr. Steinacher called on Cari Kaup to provide call center information including service and customer care standards as well as call volume and web traffic statistics. The written report was received as informational.

Mr. Steinacher called on Madison Jones with Union Bank and Trust to give an update on the grass roots marketing efforts. Ms. Jones provided information on the number of visits that have been made and with whom they have visited, as well as, events they have attended during the last quarter. She stated they have visited over 3000 places of business year to date which include doctor and dentist offices, daycares and karate and dance studios.

Chair Boozer called on Rob Noe of Wilshire Associates for the investment performance report. Mr. Noe provided commentary on the economy including the U.S. and international equity markets, as well as, the fixed income, real estate and commodity markets. He also provided a summary of the individual fund portfolios for both the Direct and Advisor Plans and discussed fund performance compared to the relative benchmarks. Mr. Noe provided evaluations on the mutual funds and noted the Lord Abbett Developing Growth Fund moved from the 3rd decile to the 5th decile. The written report was received as informational.

Chair Boozer called on Annoesjka West with Callan to present the consultant's report. She provided information on investment fund returns and peer group rankings for the Direct and Advisor Plans. Ms. West discussed the Watch List. She stated that Callan recommends the Touchstone High Yield Fund (Advisor Plan), the Templeton International Bond Fund (Advisor Plan), the American Century Equity Growth Fund (Advisor Plan) and the Voya Global Real Estate Fund (Advisor Plan) be placed on the

Watch List due to underperformance. She also stated that Callan recommends the Fidelity Investment Grade Bond Fund (Direct and Advisor Plan), the MainStay Total Return Bond Fund (Direct and Advisor Plan) and the BlackRock Inflation-protected Bond Fund (Advisor Plan) remain on the Watch List. Ms. West mentioned the Lord Abbett Developing Growth Fund and said it continues to be on the Watch List and will be discussed later in the meeting. A motion to approve the Watch List recommendations was made by Mr. Hughes, seconded by Mr. Beavers, with unanimous approval.

Chair Boozer called on Mr. Noe to present a memorandum regarding the replacement recommendation of the Lord Abbett Developing Growth Fund that is utilized in the Advisor Plan. He stated the Fund has underperformed by 13% over the past year and has experienced several investment team changes that have lead Wilshire to recommend replacement of the Fund with another small cap growth fund. Mr. Noe discussed three funds Wilshire identified as strong replacement candidates which were Harbor Small Cap Growth Opportunities Fund, Meridian Small Cap Growth Fund and Artisan Small Cap Fund. Of the three candidates, Wilshire recommended the Harbor Small Cap Growth Opportunities Fund as the replacement due to it having the highest rating within their Manager Research team as well as having the most competitive expense ratio. Ms. West presented a memo from Callan that compared the performance of the Lord Abbett Fund against the three fund replacement candidates Wilshire had presented. Ms. West also gave a brief summary of each fund and discussed their performance, fees, style and organization. After a thorough conversation concerning the three funds, Mr. Hughes asked if a second search could be conducted for additional candidates. Mr. Noe stated Wilshire would conduct an additional search for review. A motion to defer this matter to the Investment Committee to make a selection once additional funds could be considered was made by Mr. Hughes, seconded by Mr. Beavers, with unanimous approval. The Board will ratify the decision of the Investment Committee at the next Board meeting.

Chair Boozer called on Daria Story and Anita Kelley to present a summary of the ABLE RFI responses that were received from the states of Florida, Nebraska, Ohio, Oregon, Tennessee and Virginia. Ms. Story and Ms. Kelley discussed each state's response which included structure of the program, services offered, investment options and cost to both the owner of the account as well as the state of Alabama. Chair Boozer discussed the formation of an ABLE RFI Committee that would consist of Mr. Knight, Mr. Reifenberg and himself. He suggested the committee gather additional information on the Oregon, Nebraska and Florida plans for the Committee's review and selection of an ABLE Program Provider on behalf of the Board. A motion to approve the formation of an ABLE RFI Committee and to allow the Committee to select an ABLE Program Provider was made by Mr. Hughes, seconded by Dr. Stewart, with unanimous approval.

Chair Boozer presented the minutes of the May 16, 2016 Investment Committee meeting. A motion to approve the minutes was made by Mr. Hughes, seconded by Mr. Beavers, with unanimous approval.

Chair Boozer presented a resolution to ratify the Investment Committee's decision to transition all funds and new monies in the Advisor Plan previously allocated to the BlackRock Cash Funds Money Market Fund to the State Street U.S. Government Money Market Fund. A motion to approve the resolution was made by Mr. Beavers, seconded by Mr. Knight, with unanimous approval.

Chair Boozer called on Mr. Steinacher to present a memo concerning an increase in the investment limit from \$350,000 to \$400,000. Mr. Steinacher discussed the memo and stated that Union Bank and Trust recommended the proposed increase. A motion to approve the increase was made by Mr. Beavers, seconded by Mr. Knight, with unanimous approval.

Chair Boozer called on Mr. Steinacher to present two memos summarizing updates to the Direct and Advisor Plan's Program Disclosure Statements that would be effective September 28, 2016 as well as PDS Supplements for both Plans. He stated that Chris Simmons, legal counsel for the Board had reviewed the disclosures and provided comments. Chair Boozer presented a resolution to approve the Program Disclosure Statements and Supplements. A motion to approve the resolution was made by Mr. Hughes, seconded by Mr. Beavers, with unanimous approval.

Chair Boozer called on Mr. Steinacher to discuss two memos summarizing Program Disclosure Statement Supplements for the Advisor and Direct Plans.

Chair Boozer discussed his August 1, 2016 meeting with Morningstar that was held in Chicago.

There being no further business, a motion to adjourn was made by Mr. Beavers, seconded by Mr. Hughes, with unanimous approval. The meeting adjourned at 11:51 a.m.

Anita Kelley, Recording Secretary

Young Boozer, Chair